



# The Impact of Halal Certification on the Competitiveness of MSME Products in Indonesia

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**Abstract.** *This study examines the significant impact of halal certification on increasing the competitiveness of Micro, Small, and Medium Enterprises (MSMEs) products in Indonesia. As the country with the largest Muslim population in the world, the demand for halal certification of products is an important and decisive factor in purchasing decisions. Halal certification is regulated by the Halal Product Guarantee Law (JPH), which is not merely a matter of regulatory compliance, but a fundamental business strategy for building consumer trust. This research is qualitative in nature, using literature studies and secondary data from various reports and previous studies to analyze the dimensions of increased competitiveness, including market expansion (domestic and export), product image enhancement (branding), and quality/operational standards improvement. The results show that halal certification positively and significantly increases the credibility of MSMEs, opens access to global supply chains, and strengthens customer loyalty. However, challenges such as the cost and complexity of the certification process remain obstacles for most MSMEs. Therefore, policy intervention and facilitation from the government are needed to optimize the potential of halal MSMEs in achieving Indonesia's vision as a global center for halal products.*

**Keywords:** Competitiveness, Halal Certificate, Islamic Economics, Micro, Small and Medium Enterprises (MSMEs)

## 1. Introduction

The Micro, Small, and Medium Enterprises (MSME) sector is a key pillar of the Indonesian economy, contributing more than 60% of the Gross Domestic Product (GDP) and employing a significant portion of the national workforce. This strength is supported by a massive domestic consumer base, the majority of whom are Muslim. In a market dominated by Muslim consumers, the demand for halal products has shifted from being merely a religious consideration to a widely recognized standard of food quality and safety. Therefore, Halal Certification has become a very important strategic issue, especially after the enactment of Law Number 33 of 2014 concerning Halal Product Guarantee (JPH), which requires all products circulating in Indonesia to be gradually certified as halal.

Halal essentially covers two main aspects: halal (sharia compliance) and thayyib (good, safe, and hygienic). For Muslim consumers, the halal label is a guarantee that the product has been processed in accordance with religious guidelines and under strict supervision, automatically building a strong level of trust. In a competitive market, consumer trust is the most valuable currency. MSMEs that are able to provide this assurance through official certification gain a significant comparative advantage over competitors who do not have halal certification.

Historically, halal certification in Indonesia was initially voluntary, but with the enactment of the JPH Law, it will become mandatory for food and beverage products

starting in October 2024. This obligation encourages MSMEs to make internal improvements, from raw materials and production processes to quality management systems. The certification process requires MSMEs to document and standardize all process flows, which ultimately improves operational efficiency and overall product quality.

The competitiveness of MSMEs is defined as the ability of products or businesses to compete sustainably in the market by offering superior value to customers compared to competitors. In this case, halal certification serves as an instrument to increase competitiveness through three main mechanisms. First, Domestic Market Access, where certification has successfully opened up a segment of the Muslim consumer market that is very concerned about halal issues (halal-aware) while also meeting the requirements of mandatory regulations in Indonesia. Second, the impact extends to Global Market Access; certified products become an essential passport to penetrate export markets in OIC countries or countries with large Muslim diasporas, a global halal market of fantastic value. Strategically, the third impact is Product Differentiation and Branding: official certification enables the creation of a positive brand image (halal and thayyib), which consumers inherently associate with superior hygiene, quality, and ethics.

Despite the obvious benefits, many MSMEs, especially ultra-micro ones, face significant challenges, such as certification costs, administrative complexity, and a lack of halal literacy. These challenges have the potential to create an imbalance in competitiveness, where only more established MSMEs can meet them. Therefore, the government, through the Halal Product Guarantee Agency (BPJPH) and the Halal Product Process Assistance Agency (LPPPH), has launched a free certification facilitation program, such as Sehati (Free Halal Certification), to ensure that mandatory halal implementation does not stifle small businesses, but rather empowers them.

This study aims to analyze the extent to which investment and MSME compliance with halal certification are positively correlated with improvements in competitiveness indicators such as sales volume, market reach, and consumer loyalty, as well as to identify supporting and inhibiting factors that need to be addressed within the framework of national policy.

## **2. Method**

This study uses a qualitative method with a literature review and descriptive analytical approach. The data used is secondary data sourced from: (1) National and international scientific journals relevant to halal certification, MSMEs, and competitiveness; (2) Annual reports and official publications from relevant government agencies (BPJPH, Ministry of Cooperatives and SMEs, BPS); and (3) Case studies on the implementation of halal certification in MSMEs.

The data collection process was conducted through a systematic review of academic databases (such as Google Scholar, Scopus, DOAJ) using the keywords: "MSME halal certification," "impact of halal on competitiveness," "JPH regulations," and "consumer trust in halal products." The main inclusion criteria were studies that contained empirical data or conceptual analysis on the effect of halal certification on the non-financial and financial performance of MSMEs in Indonesia.

The data analysis techniques used were content analysis and comparison of findings. Content analysis was applied to identify key themes emerging from the literature, such as dimensions of increased competitiveness (market, quality, brand), implementation challenges, and the role of government policy. Comparison of findings was conducted to

compare the results of empirical studies, for example, the amount of increase in sales or market reach of MSMEs before and after obtaining halal certification. The conceptual framework used is an intangible asset-based competitiveness model, in which halal certification is positioned as a key asset that fosters market trust and legitimacy. The limitation of this study lies in its reliance on secondary data, so the findings are synthetic and interpretive from various existing case studies.

### 3. Results and Discussion

#### 3.1. Halal Certification as a Driver of Consumer Trust and Internal Quality Improvement

Consistent findings from various studies show that the most direct and significant impact of halal certification is an increase in Muslim consumer trust. In Indonesia, the halal label from BPJPH/MUI is positioned as a trust mark that ensures the halal and thayyib (cleanliness, safety) of products. This trust is a basic prerequisite for repeat purchases (consumer loyalty) and word-of-mouth referrals, which are vital for MSME growth.

The process of obtaining halal certification requires MSMEs to implement a Halal Assurance System (SJH) or Halal Product Assurance System (SJPH). The implementation of SJPH is a catalyst for the internal quality transformation of MSMEs. MSMEs are required to: (a) Standardize raw materials, ensuring that only materials whose halal status is clear are used; (b) Separate production facilities and equipment from non-halal products (najis stages); and (c) Document and monitor the entire process from upstream to downstream. These obligations effectively improve the hygiene, sanitation, and quality management standards of MSMEs, which in turn improves the overall quality of products. Higher quality and safer products directly increase non-price competitiveness.

#### 3.2. Impact on Market Expansion (Domestic and Global)

Halal certification dramatically expands the market reach of MSMEs, both domestically and internationally.

##### a. Domestic Market Dominance

With mandatory halal certification, uncertified products will lose their distribution permits and substantial market share. Halal certification is no longer an option, but rather a license to compete in the Indonesian market. Certified MSMEs are able to attract consumer segments that were previously skeptical or chose products from large companies that were already certified. Empirical studies in several regions show an average increase in sales volume of between 20% and 47% for food and beverage MSMEs after obtaining halal certification, indicating pent-up demand from consumers awaiting halal assurance. Halal certification also facilitates business cooperation with modern retailers, restaurants, and large catering companies, which often make halal certification a mandatory requirement for suppliers.

##### b. Access to Global Markets

The global halal market is estimated to be worth more than USD 7 trillion, covering food, finance, fashion, and tourism. Halal certificates issued by BPJPH and recognized through Mutual Recognition Arrangements (MRAs) with halal institutions in other countries (such as Malaysia, the United Arab Emirates, or other OIC countries) are the key to entry (export passport). Export-oriented MSMEs must have halal certificates to be accepted in the global halal supply chain. Certification provides a competitive advantage for local products to compete with imported products or products from non-Muslim countries.

Without a recognized halal label, the opportunities for Indonesian MSMEs to participate in the global halal economic ecosystem will be very limited, even closed.

### *3.3. Increased Brand Equity and Differentiation*

Halal certification is a powerful product differentiation tool. In similar product categories (such as banana chips, coffee, or snacks), the halal label provides added value that distinguishes MSME products from competitors. This added value allows MSMEs to: First, implement premium pricing, because standardized production processes and guaranteed halal certification require higher investment in costs and quality management. Second, strengthen Islamic branding: Halal labels reinforce the brand image as an entity that cares about ethics and Islamic values (business morality), which resonates strongly with Muslim consumers. This helps MSMEs build unique and solid brand equity. Third, Effective Marketing: Halal certification provides a clear and strong selling point in marketing campaigns, especially on social media and e-commerce platforms.

### *3.4. Challenges and Obstacles for MSMEs (Factors Hindering Competitiveness)*

Despite its positive impact, challenges in the certification process remain a major obstacle to competitiveness for small MSMEs.

- a. **Cost and Time Constraints:** Although the government provides a free certification program (Sehati), quotas are limited and the regular process still involves relatively high audit and administrative costs for micro MSMEs, which often have limited working capital. Long waiting times can also hinder MSMEs from taking advantage of market momentum.
- b. **Literacy and Administration:** Many MSME actors, especially in rural areas, do not yet have adequate literacy regarding SJPH/SJY requirements and strict documentation procedures. Limited access to technology and information also complicates submission and reporting.
- c. **Availability of Halal Raw Materials:** The halal raw material supply chain (especially for MSMEs that use materials from local agriculture/livestock) is often not yet integrated and certified. These limitations force MSMEs to change suppliers or delay certification.

### *3.5. The Role of Government Policy in Supporting Competitiveness*

To optimize the impact of halal certification on the competitiveness of MSMEs, targeted policy interventions are essential. The Sehati program is a step in the right direction, but its scope needs to be expanded. In addition, continuous assistance and education (in the form of training in quality management, hygiene, and SJPH administration) must be intensified, particularly through collaboration with universities, religious institutions, and MSME associations. Simplifying regulations for micro and small MSMEs, such as self-declaration with assistance, has also proven effective in speeding up the process without reducing halal assurance standards. Ultimately, these efforts should be viewed as a national investment to transform MSMEs into competitive, internationally-standardized global economic players.

## **4. Conclusion**

Halal certification has a strong and significant positive impact on improving the competitiveness of Micro, Small, and Medium Enterprises (MSMEs) in Indonesia. Halal assurance serves as a fundamental intangible asset for building the trust of Muslim

consumers, who constitute the majority of the domestic market. This trust is directly converted into increased customer loyalty and sales volume. Strategically, halal certification also compels MSMEs to implement a Halal Product Assurance System (SJPH), which leads to improvements in internal quality, hygiene, and standardization of production processes. These improvements are essential prerequisites for competing in modern markets. More than just domestic compliance, halal certification is the main gateway (export passport) for MSMEs to penetrate the huge global halal market. Certified products have strong differentiation value, enabling MSMEs to demand more competitive prices and build positive brand equity.

However, challenges in terms of cost, administrative complexity, and halal literacy remain obstacles for most MSMEs, potentially hindering equitable competitiveness improvement. Therefore, the success of optimizing the impact of halal certification on MSME competitiveness is highly dependent on the commitment of the government and stakeholders in providing extensive free certification facilitation (Sehati) and intensive and sustainable mentoring programs.

Recommendation: The government must continue to integrate halal certification programs with other MSME empowerment programs, ensuring that halal requirements become opportunities for business acceleration rather than obstacles, so that Indonesian MSMEs can transform into the backbone of the global halal economy.

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